# Impact of the Global Crisis on Trade Relations between the European Union and China

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The paper concentrates on bilateral trade relations and does not tackle other, sometimes extremely important areas of political, economic, cultural and other contacts between the European Union and China. China became the largest supplier to the EU in 2005. The global crisis has further enhanced bilateral trade relations, since China's share in total extra-EU imports rose from 15 to almost 18 percent. Not less importantly, the Asian country proved to be the only export market of the EU with positive growth in 2009. Still, substantial Chinese trade surplus, although declining, remained more than manifest. The statistical analysis identifies partly widely different member country performance with China, with special reference to the new member countries of the EU. Hungary, as several other countries, could substantially increase its exports to China in 2009. Still, the largest winner was Germany that accounts for almost half of the total EU exports to the Asian country and could establish a much more balanced trade flow than most of the other member countries. Recently, China is the second largest extra-EU market for the EU, ahead of Russia and Switzerland, and the largest extra-EU supplier of not less than 13 member countries, including the United Kingdom and France (ahead of the USA), as well as the Czech Republic, Hungary and Romania (ahead of Russia). Even more importantly, in the first half of 2010 China became the largest exporter to Germany, surpassing the half-century long traditional EU-member exporters, both the Netherlands and France.

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The post-1945 period had been experiencing several but mostly mild economic recessions in different parts of the (developed) world. They were not harmonized in time, so that any slowdown of growth in the USA could be partially or fully compensated by continuous growth in other centres of the global economy, mainly in the European Union and/or Japan. Similarly, signs of recession in Europe and/or Japan could be tempered by ongoing strong growth in the USA. However, the global financial and economic crisis started in the USA in 2007–2008 did not save any major growth centre of the world economy. Both due to its strength and to the high level of global interdependence, it affected the entire developed world and had serious impacts on many developing countries as well. More importantly, the new feature of the current crisis consists in converting international trade to the key victim. Previous crises may have hit domestic growth in general or the development of selected sectors in particular, but they hardly affected international trade negatively. Just the opposite, the latter used to be one of the key factors that could alleviate the depth and the negative consequences of crisis in any part of the world economy. This time, international trade became the most affected sector of the economy everywhere, since negative GDP growth rates in practically all developed economies generated the collapse of international trade. Obviously, particularly hit were open economies, heavily relying on international trade, a key factor or, in case of smaller countries, the genuine engine of their previous high or sustained growth. While GDP growth declined by about 3 percent in the OECD world in 2009, their trade collapsed by about 20 percent or more.

Not least in this context, EU–China trade relations deserve special attention.

First, their combined share in global trade is about 30 percent of total (excluding intra-EU trade, or near to 50 percent including this factor).

Second, China became the largest supplier of the EU in 2005, replacing the USA and steadily increasing the gap between itself and other main exporters to the EU since this year. At the same time, the EU represents the second largest supplier of China, behind Japan and well ahead of the United States. In addition, the gap between Japan and the EU as the largest exporters to the Chinese markets started to decrease in recent years and the EU may become soon the largest supplier of China.

Third, just in the most critical year of the global crisis (2009), China became the largest exporter for the first time in modern economic history, replacing Germany that used to be the world champion in the last years when it had sent the USA to the second place less than a decade ago. It is noticeable that China took the leading position of Germany just in 2009 when economic recession and global trade collapse hit both countries (and with Germany as well the EU as such) at full vigour. In fact, global exports of China fell by 16 percent, while Germany's exports experienced a decline of 17.1 percent. This relatively small difference in decline plus the first stage of the depreciation of the euro against the US dollar, to which the Chinese currency had been unofficially fixed (until June 2010), resulted in the change at the top of global exporters in favour of China.

Fourth, for the first time in the period of 30 years of practically uninterrupted economic growth based on export-orientation, the „Chinese model" became seriously challenged. In fact, China has been the only large national economy with an almost unlimited domestic market that embarked on the export-oriented development pattern experienced and largely benefited by smaller East Asian (and, in most recent period, also by most of the Central and Eastern European) countries. All other large economies, including the rapidly emerging countries, such as Brazil, India, Russia, South Africa, Turkey, etc. had been basing their economic development much more on the domestic market than on external demand. (Mexico has to be mentioned as a very special case due to its particular links to the United States.)

Fifth, and finally, the impact of the crisis on bilateral trade in general and on EU export performance in particular serves as a special field of analysis. Considering the introduction of a unique anti-recession stimulating package in China (USD 584 billion) and the strong revival of the Chinese economy already by autumn 2009, as testified by the GDP growth rate of 8.7 percent in the crisis-hit year, the EU's global competitiveness and its ability to make use of new export chances in extra-EU trade (in other words, a growing extra-EU orientation of EU trade) can be – at least partially – tested by the survey of bilateral trade relations.

## 1. Some methodological remarks

This article is very limited in time. It only deals with the period between 2008 and the first four months of 2010 for which statistical data were available. The main focus concerns changes from 2008 to 2009, and where available and interesting, including the first four months of 2010. Although the crisis started in the autumn of 2008 and the first negative impacts on growth and trade could be observed in the last quarter of this year, the full strength of the crisis can be most adequately identified and analysed by comparing 2008 and 2009 figures.

The author is fully aware of the risks attached to a short-term survey and the conclusions and lessons to be drawn out of it. However, he is convinced that, by considering some potential shortcomings, such a short-term analysis is able to provide useful results. Evidently, EU–China trade relations did not start with the global crisis. On the contrary, they had been developing for decades, with an accelerated speed following China's membership in the World Trade Organization (WTO) (2001).

Therefore, several trends generated before the crisis could either benefit from or become damaged by the current global crisis. In addition, short-term responses to the crisis include EU (and, more importantly, member country or company-level) policies in search of new markets in the period of serious demand fall in the EU itself. Nevertheless, also the impact of Chinese responses to the crisis (stimulus package, slower but still outstanding growth) has to be taken into account. Finally, current statistical figures should not be decoupled from longer term processes that characterize both the changing economic environment in China and in the EU. In fact, short-term trade benefits ripped by the current crisis may become important building blocks of longer-term business contacts, while potential costs of the crisis on bilateral trade relations may turn out as unavoidable costs of a bilateral learning process.

In consequence, the forthcoming statistical survey has to be read with utmost care, but, hopefully, not without a number of useful lessons and, partly, of policy recommendations. Beyond general lessons both for the EU and China, as global players in the world economy in general, and in world trade in particular, several points may be of special interest for Hungarian policy-makers. Among others, they include the impact of and opportunities offered by EU membership on the geographic pattern of Hungary's trade relations, a more multi-dimensional trade and economic policy of China towards different countries of the EU, Hungary's potential regional role in developing "special" contacts with China, including the business interests of Chinese companies in or oriented to Hungary (not disregarding the role of the Chinese community already settled in the country), as well as the longer-term strategy of foreign (transnational) firms located in Hungary and looking for both the Chinese market (exports) and supply (imports) from China.

Finally, it has to be stressed that the paper is fully focused on short-term trade developments. It does not deal with a large number of extremely important issues affecting EU–China relations. They have been dealt with, parallel to this survey, in another in-depth analysis in the framework of the last stage of a multi-annual strategy project on China.[1] Main sections of the EU–China study address the character of bilateral trade, with special regard to processing and direct trade flows, major barriers to enhancing bilateral trade and market access and the interdependence between European investments in China and their impact on bilateral trade relations. Increasingly importantly, also European interests in and fears of Chinese investments in the EU (and its neighbourhood or "competitive markets") have been identified. In addition, China's changing image of Europe(an Union) in its new global position as well as, to some extent, Europe(an Union)'s China-picture (as far as available) have been

[1] Between mid-2006 and mid-2010 a four-year and annually renewed project financed by the Prime Minister's Office of the Hungarian Government and in cooperation with the Hungarian Academy of Sciences has been carried out in the Institute for World Economics. The referred analysis is part of the last year's output and will be published later.

devoted special attention to. Probably most importantly, the question of the sustainability of the export-oriented growth pattern of China requires utmost attention, both as a consequence of (and lessons from) the global crisis and as a significant contribution to the discussion on the "end of export-oriented growth" in Hungary and several other highly open small economies of (Central and Eastern) Europe. Unfortunately, all these issues do not form part of this statistical paper.

All primary statistical data have been taken from the monthly bulletin of Eurostat.[2] Also the author's own calculations are based on these figures.

## 2. Impact of the global crisis on EU–China trade

In 2010, two important milestones of EU–China relations will be celebrated. First, it is the 45th anniversary of establishing diplomatic relations between Brussels and Beijing. Second, the first bilateral trade agreement that is still the legal basis of the current economic relations, was signed in 1985, so 35 years ago. Of course, bilateral relations today cannot be compared to those enshrined in the 1985 treaty. On the one hand, trade experienced a unique development and became a cornerstone of bilateral relations with substantial global impact. On the other hand, bilateral relations were extended to a large number of areas, from joint technological programs (Galileo, Erasmus, environment, etc.) through bilateral treaties in transportation, communication, tourism, culture, etc. to trade and trade-related issues (investments, public procurement, intellectual property rights, health safety, technical standards) negotiated both bilaterally and in the framework of the WTO. Although these issues do not form part of this study, it has to be emphasized that the impact of the global crisis on the most important field of bilateral relations, namely trade, has to be embedded into this framework. Trade developments between 2008 and April 2010 may become an important element of how future chances and risks of bilateral relations in the framework of growing global interdependence (and an even more rapidly growing role of China in this setting) will be perceived, used or prevented.

The paper is structured as follows. First, EU–China trade will be examined as part of the total extra-EU trade (see Tables 1 to 3). Second, trade of the individual EU member countries with China will be surveyed (see Tables 4, Annexes 1 to 3)[3]. Third, and finally, the importance of trade relations in total extra-EU trade of the EU and of the member countries will be addressed (see Annexes 4 to 6).

[2] EUROSTAT [2010]: *External and Intra-European Union Trade*. Monthly statistics. No. 6. Luxembourg.

[3] Due to lack of space, Annexes 1–6 are published on the website of the *Hungarian Statistical Review* (www.ksh.hu/statszemle/).

Table 1

*Trade of the EU with main partner countries and regions*
(EUR billion)

| Country/region | 2008 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Exports | Imports | Balance | Exports | Imports | Balance |
| Total extra-EU | 1 309.8 | 1 564.9 | –255.1 | 1 095.1 | 1 199.6 | –104.5 |
| USA | 250.0 | 186.9 | +63.1 | 204.6 | 159.7 | +44.9 |
| Russia | 105.0 | 177.9 | –72.8 | 65.6 | 115.4 | –49.8 |
| Switzerland | 98.0 | 80,3 | +17.7 | 88.6 | 73.8 | +14.8 |
| **China** | **78.4** | **247.9** | **–169.5** | **81.7** | **214.7** | **–133.0** |
| Turkey | 54.1 | 46.0 | +8.1 | 43.9 | 36.1 | +7.8 |
| Norway | 43.8 | 95.8 | –52.1 | 37.6 | 68.7 | –31.1 |
| Japan | 42.3 | 75.2 | –32.9 | 36.0 | 55.8 | –19.8 |
| United Arab Emirates | 31.7 | 5.9 | +25.8 | 25.1 | 3.8 | +21.3 |
| India | 31.6 | 29.5 | +2.1 | 27.5 | 25.4 | +2.1 |
| Brazil | 26.4 | 35.9 | –9.5 | 21.6 | 25.7 | –4.1 |
| Canada | 26.1 | 23.9 | +2.2 | 22.4 | 17.8 | +4.6 |
| Republic of Korea | 25.6 | 39.6 | –14.0 | 21.5 | 32.0 | –10.5 |
| Australia | 25.2 | 11.2 | +14.0 | 21.8 | 8.1 | +13.7 |
| Ukraine | 25.1 | 14.5 | +10.6 | 13.9 | 7.9 | +6.0 |
| Near and Middle East | 111.4 | 87.0 | +24.4 | 96.2 | 55.7 | +40.5 |
| Latin America | 79.6 | 97.4 | –17.7 | 63.6 | 71.1 | –7.5 |
| ACP* | 67.7 | 76.5 | –8.8 | 57.3 | 53.7 | +3.6 |
| North Africa | 59.2 | 88.6 | –29.4 | 55.6 | 57.9 | –2.3 |
| Western Balkan countries | 33.0 | 13.9 | +19.1 | 25.5 | 11.2 | +14.3 |

* African, Caribbean and Pacific Group of States.

*Source*: EUROSTAT [2010]: *External and Intra-European Union Trade*. Monthly statistics. No. 6. Luxembourg.

Table 2

*Dynamics of EU trade with main extra-EU partner countries and regions in 2009*
(2008 = 100)

| Partner country/region | Exports | Imports |
|---|---|---|
| World trade of EU | 81.7 | 79.1 |
| Intra-EU trade | 80.8 | 80.6 |
| Extra-EU trade | 83.7 | 76.7 |
| USA | 81.8 | 85.5 |
| Russia | 62.6 | 64.9 |
| Switzerland | 90.4 | 91.9 |
| **China** | **104.1** | **86.6** |
| Turkey | 81.1 | 78.5 |
| Norway | 85.8 | 71.7 |
| Japan | 85.1 | 74.3 |
| India | 87.0 | 86.1 |
| Brazil | 81.8 | 71.6 |
| Canada | 85.8 | 74.5 |
| Republic of Korea | 84.0 | 80.8 |
| Australia | 86.5 | 72.3 |
| Ukraine | 55.4 | 54.5 |
| Mexico | 72.6 | 72.3 |
| Non-EU27 Europe | 76.8 | 73.1 |
| Africa | 90.3 | 67.1 |
| Near and Middle East | 86.5 | 62.4 |
| Latin America | 79.9 | 73.0 |
| Asia* | 92.8 (88.4) | 82.6 (79.2) |
| Candidate countries | 79.9 | 78.7 |

* With China (in brackets excluding trade with China).
*Source*: Eurostat as quoted in Table 1 and own calculations.

Table 3

*Share of main partner countries/regions in total extra-EU trade of the European Union*
(percent)

| Country/region | Exports | | | Imports | | | Balance | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010* | 2008 | 2009 | 2010* | 2008 | 2009 | 2010* |
| EU27 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| USA | 19.1 | 18.7 | 17.9 | 11.9 | 13.3 | 11.7 | 24.4 | 43.0 | 41.7 |
| Russia | 8.0 | 6.0 | 5.8 | 11.4 | 9.6 | 10.6 | –28.2 | –47.7 | –52.1 |
| Switzerland | 7.5 | 8.1 | 8.1 | 5.1 | 6.2 | 5.9 | 6.8 | 14.2 | 13.4 |
| **China** | **6.0** | **7.5** | **8.5** | **15.8** | **17.9** | **17.6** | **–65.6** | **–127.4** | **–105.4** |
| Turkey | 4.1 | 4.0 | 4.4 | 2.9 | 3.0 | 3.0 | 3.1 | 7.5 | 9.3 |
| Norway | 3.3 | 3.4 | 3.3 | 6.1 | 5.7 | 5.7 | –20.2 | – 29.8 | –27.0 |
| Japan | 3.2 | 3.3 | 3.4 | 4.8 | 4.7 | 4.6 | –12.7 | – 19.0 | –15.1 |
| India | 2.4 | 2.5 | 2.6 | 1.9 | 2.1 | 2.4 | 0.8 | 2.0 | –0.2 |
| Brazil | 2.0 | 2.0 | 2.2 | 2.3 | 2.1 | 2.1 | –3.7 | – 3.9 | –0.4 |
| Canada | 2.0 | 2.0 | 2.1 | 1.5 | 1.5 | 1.4 | 0.9 | 4.4 | 4.8 |
| Republic of Korea | 2.0 | 2.0 | 2.0 | 2.5 | 2.7 | 2.7 | –5.4 | –10.1 | –8.0 |
| Australia | 1.9 | 2.0 | 2.1 | 0.7 | 0.7 | 0.6 | 5.4 | 13.1 | 12.5 |
| Ukraine | 1.9 | 1.3 | 1.2 | 0.9 | 0.7 | 0.6 | 4.1 | 5.7 | 4.3 |
| Near and Middle East | 8.5 | 8.8 | 8.2 | 5.6 | 4.6 | 5.1 | 9.4 | 38.8 | 21.6 |
| North Africa | 4.5 | 5.1 | 4.8 | 5.7 | 4.8 | 5.2 | –11.4 | –2.2 | –8.4 |
| Latin America | 6.1 | 5.8 | 6.3 | 6.2 | 5.9 | 5.9 | –6.8 | –7.2 | –2.4 |
| ACP** | 5.2 | 5.2 | 5.2 | 4.9 | 4.5 | 4.3 | –3.4 | 3.4 | 3.5 |
| Western Balkan countries | 2.5 | 2.3 | 2.0 | 0.9 | 0.9 | 0.9 | 7.4 | 13.7 | 8.6 |

* From January to April.
** African, Caribbean and Pacific Group of States.
*Source*: Eurostat as quoted in Table 1 and own calculations.

Table 4

*Share of the individual EU member states in total EU trade with China*
(percent)

| EU member state | Exports | | | Imports | | | Balance | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010* | 2008 | 2009 | 2010* | 2008 | 2009 | 2010* |
| EU27 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Germany | 43.4 | 44.6 | 47.4 | 20.8 | 21.4 | 23.1 | 10.3 | 7.2 | 4.7 |
| France | 11.5 | 9.6 | 9.6 | 7.7 | 8.3 | 8.3 | 6.0 | 7.5 | 7.4 |
| Italy | 8.2 | 8.1 | 7.5 | 9.5 | 9.0 | 9.4 | 10.1 | 9.5 | 10.8 |
| United Kingdom | 7.8 | 7.0 | 7.1 | 13.2 | 14.2 | 13.1 | 15.7 | 18.7 | 17.6 |
| Netherlands | 5.1 | 5.8 | 5.2 | 16.3 | 17.2 | 17.3 | 21.5 | 24.1 | 26.5 |
| Belgium | 4.4 | 5.3 | 5.2 | 5.4 | 4.8 | 4.4 | 5.9 | 4.6 | 3.8 |
| Sweden | 3.4 | 3.6 | 3.1 | 1.9 | 1.9 | 2.0 | 1.2 | 0.9 | 1.1 |
| Spain | 2.7 | 2.4 | 2.2 | 6.9 | 5.6 | 5.9 | 8.8 | 7.5 | 8.7 |
| Finland | 2.6 | 2.3 | 1.9 | 1.3 | 1.1 | 0.9 | 0.7 | 0.3 | 0.1 |
| Austria | 2.5 | 2.4 | 2.3 | 1.3 | 1.2 | 1.2 | 0.7 | 0.5 | 0.4 |
| Ireland | 2.0 | 2.0 | 1.6 | 0.8 | 0.8 | 0.6 | 0.2 | 0.1 | (0.1)** |
| Denmark | 1.9 | 1.9 | 1.5 | 1.7 | 1.7 | 1.7 | 1.7 | 1.6 | 1.8 |
| Portugal | 0.2 | 0.3 | 0.2 | 0.5 | 0.5 | 0.6 | 0.7 | 0.7 | 0.9 |
| Luxembourg | 0.2 | 0.2 | 0.1 | 1.7 | 1.5 | 0.7 | 2.3 | 2.4 | 1.1 |
| Greece | 0.1 | 0.1 | 0.1 | 1.4 | 1.4 | 1.4 | 1.9 | 2.2 | 2.3 |
| Poland | 1.1 | 1.3 | 1.3 | 2.5 | 2.6 | 2.7 | 3.2 | 3.4 | 3.8 |
| Hungary | 1.0 | 1.1 | 1.2 | 2.3 | 2.2 | 2.2 | 2.9 | 2.9 | 3.0 |
| Czech Republic | 0.7 | 0.7 | 0.8 | 1.9 | 2.0 | 2.2 | 2.5 | 2.8 | 3.2 |
| Slovakia | 0.5 | 0.7 | 1.0 | 0.8 | 0.7 | 0.7 | 1.0 | 0.7 | 0.4 |
| Romania | 0.2 | 0.3 | 0.3 | 1.0 | 0.9 | 0.9 | 1.3 | 1.3 | 1.4 |
| Slovenia | 0.2 | 0.1 | 0.1 | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 |
| Bulgaria | 0.1 | 0.1 | 0.2 | 0.3 | 0.2 | 0.2 | 0.4 | 0.3 | 0.1 |
| Estonia | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Malta | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 | 0.1 | 0.0 |
| Lithuania | 0.0 | 0.0 | 0.0 | 0.2 | 0.2 | 0.2 | 0.3 | 0.2 | 0.3 |
| Latvia | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Cyprus | 0.0 | 0.0 | 0.0 | 0.2 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 |
| NMS12*** | 4.0 | 4.5 | 5.0 | 9.7 | 9.4 | 9.6 | 12.3 | 12.3 | 13.0 |

* From January to April.
** Positive trade balance.
*** New member states of the EU.
*Note*. Total exports to and total imports from China and total trade balance are always 100.
*Source*: Eurostat as quoted in Table 1 and own calculations.

## 2.1. General features of EU–China trade in the crisis

In 2008, EU exports to China reached EUR 78.4 billion, while imports amounted to EUR 247.9 billion, resulting in a serious trade deficit of EUR 169.5 billion, very similar to the US trade deficit with China in the same year. The crisis has produced rather controversial developments. EU exports, due to several factors, continued growing to EUR 81.7 billion, while imports could not avoid the impact of overall recession and amounted to EUR 214.7 billion. As a result, the trade deficit of the EU became smaller, but still substantial (EUR 133 billion). China remained the largest exporter to the EU market and could maintain its 34 percent advantage vis-à-vis the USA, and expanded its leading role against Russia (from 40 percent in 2008 to 86 percent in 2009). Not less importantly, China became the third largest market for extra-EU exports, ahead of Russia, due to rapidly declining imports of Russia suffering both from the collapse of oil prices and the overall recession. In addition, the gap between exports to Switzerland and China decreased from 25 percent to less than 10 percent, with prospects of becoming China the second largest EU export market behind the USA in the very near future (see Table 1).

Table 2 looks at the impact of the crisis on the EU's bilateral trade relations with its most important partner countries and regions. The first observation is that the crisis caused a general and deep decline of trade flows from 2008 to 2009. Global exports of the EU fell by more than 18 percent, while imports declined even quicker to more than 20 percent, partly due to lower prices of energy and raw materials and partly to the general decline of demand. Behind this "curtain", however, several important notes can be made.

First, EU exports experienced a smaller decline in extra-EU relations (–16.3%) than in intra-EU trade (–19.2%). It means that, mainly as a result of the crisis, the EU had to become more extra-EU-oriented and tried to mitigate the adverse effects of the crisis by finding new markets outside the crisis-hit integration area, and particularly in countries that could keep their positive growth rate and disposed of large domestic markets. Second, as an evident exception, China proved to be the only market to which, notwithstanding the global decline, EU exports could continue growing by 4.1 percent.[4]

All other export markets of the EU shrunk, however, the extent was rather different. As compared to the 16.3 percent decline of overall extra-EU exports, mainly non-European markets show a relatively lower decline (such as Japan, India, Canada,

[4] Among the first 50 export markets of the EU there were only five more to which the EU could increase its exports in 2009 as compared to 2008. Their importance, however, cannot be compared with that of China, since they occupy rather modest positions in the export ranking list of the EU (Libya is 32st, Lebanon 40st, Vietnam 41st, Gibraltar 45th and Iraq 50st). The total increment of exports of EUR 2.6 billion was less than the increase of EU exports to China by EUR 3.3 billion.

Korea, and Australia). Exports to Asia only fell by 7.2 percent, as compared to more than 20 percent decline in extra-EU European markets in general or in the markets of candidate countries (Western Balkans and Turkey), in particular.

Extra-EU imports indicate a general and strong decline. First, the decline was deeper in extra-EU trade (–23.3 percent) than in intra-EU trade (–19.4 percent). In other words, EU imports became more inward-oriented, a development that certainly reflects not only the impact of the crisis but also the falling trend of energy and raw material prices of which the EU used to be the largest or one of the largest buyer.[5] Second, and more important for our study, Chinese exports to the EU decreased by 13.4 percent, but much less dramatically than the overall decline. In addition, the drop of imports from China was the slowest one behind Switzerland, among all major suppliers of the EU market.

Comparing the rate of decline between extra-EU exports and imports, some further remarks can be made. In general terms, imports fell more than exports as a result of the different commodity composition of exports and imports, changes in commodity prices, sustained dynamics of growth in several major extra-EU partner countries (first of all in China), and successful efforts of different EU member countries to divert exports to non-stagnating extra-EU markets. The overall gap between export and import decline was 7 percent, while it reached almost 20 percent in case of China and more than 10 percent in selected extra-EU countries (Japan, Brazil, Canada, Australia, as well as Africa, the Near and Middle East or Asia).

Growing EU exports to China as well as less than average decline of imports from China resulted in the continuous increase of China's weight in total extra-EU exports and imports (see Table 3). Just in the most critical year of the crisis, in 2009, China's share in total extra-EU exports jumped from 6 to 7.5 percent and, based on the data of the first four months of 2010 continued growing to 8.5 percent. As a result, not only Russia was replaced in the third place of the most important EU markets by China, but in the first months of 2010 China became the second largest market for the EU ahead of Switzerland. This dynamics can be supported by additional comparisons as well. Although the USA remains by far the most important export market of the EU, the gap between exports to the USA and to China started to narrow quickly in the years of the crisis (from less than one-third to almost 50 percent). Also, exports to China and to Latin America stood at the same level in 2008. However, in 2009 the gap in favour of China was already 29 and in the first four months of 2010 not less than 35 percent.

China became the leading supplier in extra-EU imports already in 2005. Despite declining figures in 2009, China could substantially increase its leading role in 2009,

[5] Among the 50 largest suppliers of the EU, only two could increase their sales in EU markets (Bangladesh, ranking 37th and Qatar ranking 46th).

due to the fact that imports from China fell less dramatically than EU imports from other parts of the world. In 2009, almost 18 percent of extra-EU imports originated in China, as compared to less than 16 percent a year earlier. Moreover, the gap between imports from China and the USA (the EU's second largest supplier) grew from 33 percent in 2008 to 50 percent in the first four months of 2010 (irrespective of the slight decrease of China's share as compared to 2009).

Finally, the impact of the crisis on the trade balance of the EU deserves attention. Despite the fact that EU–China bilateral trade revealed an improving balance for the EU in 2009 (due to further increasing exports and decreasing imports), the relative importance of the trade deficit in this bilateral relation jumped from 65.6 to 127.4 percent. In other words, in 2008 EU trade deficit with China amounted to about two-thirds of total extra-EU trade deficit. In contrast, and despite all favourable developments, the deficit of bilateral trade reached 127 percent of the EU's total trade deficit, and the higher than 100 percent figure was maintained even in the first four months of 2010. (Thus, the EU's extra-trade balance would indicate a surplus without the "China deficit".) While higher EU exports (and temporarily declining imports from China), accompanied by the substantial appreciation of the Chinese currency against the euro (as a result of the depreciation of the euro against the US dollar between mid-2009 and mid-2010) may have generated some positive signs of a more balanced bilateral trade, the heavy and persisting structural deficit could not be remedied. Once imports from China rebound (very likely already in 2010) and the euro starts to appreciate against the US dollar (as it, in fact, did in the last weeks), the huge imbalance in bilateral trade may become a priority issue of EU policies and business complaints vis-à-vis China.

### 2.2. EU–China trade on a disaggregated level: evidence from EU member countries

As usual, behind the general figures of EU–China trade we can identify different member country attitudes or strategies, concerning exports (and its composition), imports (and its final destination) as well as bilateral trade balances resulting from different export and import patterns.

Annex 1 focuses on the question to what extent did individual EU member countries contribute to the EU export growth of 4.1 in 2009 and how the decline of imports from China by 13.4 percent was distributed among member countries. Concerning exports, the outstanding result is that, despite the general crisis and the collapse of trade for all EU member countries, not less than 18 out of 27 member countries could increase their exports to China in 2009. Out of them, 14 were able to outpace the average increase of 4.1 percent, with a clear dominance of the new member countries (9 out of 12, as compared to a relation of 5 to 15 in the “old” ones). The most remarkable growth could be registered in China-related exports by Romania and Slovakia (over 30 percent each), even if we have to take into account the relatively low initial level of exports in 2008. This remark is correct as compared to the volume of exports to China of most old member countries, but the figure has to be placed into the general economic performance of the respective new members. But more member countries with much higher economic performance (GDP) and with exports to China could register high export growth rates of about 20 percent, such as Belgium, the Netherlands and (from a low basis) Portugal among the EU15, and Poland and Hungary from the group of the new members. The latter is the more important, because trade-vulnerable new members suffered a more serious collapse of their overall exports than old member countries. In their case, chances on the Chinese market, combined with further export drive, searching for new markets and the role of foreign companies redirecting (or rapidly increasing) their sales in China can explain the outstanding performance. Beyond growth rates, absolute figures have also to be considered in order to come to a correct general assessment. Germany with a 7 percent increase of exports covered almost 75 percent of the total increment of EU exports to China in 2009. In contrast, some key EU countries (such as the United Kingdom, Spain or, also France, due to the adverse action of its president to China, by hosting the Dalai Lama[6]) were not able to benefit from the growing Chinese market and, indirectly, from the huge stimulus package of the Chinese government, while another large EU country, Italy could only achieve a less than average growth of its exports to China. Evidently, short-term differences do not allow drawing longer-term conclusions. However, it seems to be clear that the advantages of German competitiveness within the eurozone based on a decade-long conscious economic policy could become manifest also on the Chinese market. One can only guess to what extent the excellent German performance is based on a longer-term German political and economic strategy that, looking at the growing constraints in the European integration and, at the same time, at the rapidly changing global environment, has targeted a more extra-EU-oriented pattern in general, and a more China-oriented one, in particular.

In contrast to the export performance of EU member countries towards China, imports from China showed a general decline (excepting Malta). However, behind this overall picture, a rather differentiated import performance of the individual member countries can be identified. Altogether 11 member countries registered an import decline less than the EU average of 13.4 percent. Seven old and four new member countries belong to this group, including France, the United Kingdom, Ger-

[6] The French attitude resulted in calling off the regular EU–China summit planned for the French Presidency in the second half of 2008.

many, the Netherlands as well as the Czech Republic and Poland. Imports to Hungary corresponded to the EU average (–14 percent). Trade of the new member countries with China in the core crisis year delivers two important and positive messages. On the one hand, exports grew by 17 percent, several times higher than total EU exports (4.1 percent). On the other hand, imports fell more than total EU imports (by 16.5 percent as compared to 13.4 percent, respectively).

Annex 2 shows total extra-EU and China-related growth rates of exports and imports of the individual EU member countries. It can be seen that China was an engine of additional demand for 25 member countries (excepting the special case of Luxembourg and, for other reasons, that of Slovenia). Out of the 25 "beneficiaries", 8 old and 10 new member countries indicated higher exports than in 2008, while another 7 countries (6 old and 1 new members) experienced a decline of their exports to China but less than the overall decrease of their exports.

It is of particular interest to compare total extra-EU and China-related export dynamics in 2009 (as compared to 2008). The average gap on EU level was a bit more than 20 percentage points (83.7 versus 104.1 percent, respectively). The "growth gap" of the individual members covered a scale from a small difference (see France or Greece) up to 70 percent (Cyprus). Considering the countries with higher export volumes in 2009 (more than EUR 1 billion, plus Hungary with EUR 900 million) only, it oscillates between 20 and 40 percentage points.[7] Belgium, Hungary and Poland (plus Portugal as a small exporter) belong to the "highest gap group", while Swedish, Czech (and much more modest Bulgarian and Maltese) exports represent a 30 percent gap. However, for the overall performance of the EU, the most important countries, such as Germany, Italy, Netherlands, but also Finland belong to the 20 to 30 percent gap section.

As a general conclusion, it has to be underlined that exports to China helped most EU member countries in dampen the very negative impacts of the crisis on their exports. Of course, the Chinese market could not compensate the overall loss but without the improved market access to China the collapse of exports would have been even more serious.

While total extra-EU imports fell by 23.3 percent, imports from China "only" declined by 13.4 percent. The latter was less than average in altogether 21 countries (including seven new members), indicating that China's competitiveness in European markets suffered less from the global crisis than that of its main competitors.[8] This

[7] Slovakia, otherwise a rather modest exporter to China in total EU exports to this country, is an interesting exception, with more than 50 percent of growth gap between total and China-related exports. Only a case study could identify the underlying factors in general, and their sustainability, in particular.

[8] Interestingly, imports from China declined more than general imports in countries with very small amounts of Chinese imports in EU comparison (Slovakia, Bulgaria, Estonia, Latvia but also Austria). Luxembourg, as a transit country for commodities imported from China, is a special case.

about "ten-point gap" can be closely followed in figures for Germany, Italy, Finland (and Slovenia). The largest growth gap was registered by Greece (35 percentage points in favour of China), probably not decoupled with the several year long Chinese strategic steps to convert the country (and its ports) to a regional hub of adopting and transporting Chinese commodities to different EU member states.[9] Several countries with relevant imports from China can be grouped into the 10 to 20 percent "gap", such as France, the United Kingdom, the Netherlands, Portugal, and from the new members, Poland, Hungary, the Czech Republic and some other countries of meaningless relevance. In general, imports from China resisted the global collapse of imports of most EU member states successfully and pointed to the sustained or steadily growing competitiveness of Chinese commodities in almost all EU markets even in the period of serious recession. In this context, a rapid revitalization of imports from China, including even bigger challenge to European competitiveness in its home markets, can be predicted for the post-crisis period.

Annex 3 examines the trade balance of the individual member countries with China. As it has already been mentioned, EU deficits started to decline in the crisis period, without changing the fundamental character of structural imbalance.[10] It has to be stressed that bilateral deficits may have very different causes due to the economic policy of the individual member countries. One group is represented by Germany, where imports from China overwhelmingly support competitive domestic production, not least by obtaining Chinese inputs by German companies working in China (international subcontracting). A second group, represented by the Netherlands and Luxembourg generates huge deficits because of re-exporting a large part of Chinese imports to other EU member countries (or even outside the EU).[11] A third group consists of member countries mainly importing Chinese goods for internal consumption (Italy, Spain, Portugal, Greece). Two additional groups include countries with mixed economic objectives. One tries to use Chinese imports both for getting cheap (competitive) inputs for production and, at the same time, satisfying consumer demand in the low-cost segment (France, United Kingdom, but also the Czech Republic, Poland). The other one attempts to combine low-cost consumer goods imports with developing a regional hub for re-exporting Chinese products. At least in recent years, Hungary could be considered as part of both groups, unifying competitive inputs, low-

[9] China's presence in the Greek financial market immediately following the agreement between Greece and the IMF (plus the EU and the European Central Bank) is a logical upgrading of strategic presence in the "weak abdomen" of the European integration.

[10] The deficit of the first four months of 2010, if calculated for the whole year, would be not less than that in 2009. Since EU imports are expected to resume in the second half of 2010, trade deficit could be substantially higher and the coverage ratio lower than 40 percent (although higher than in 2008).

[11] Rotterdam, as the most important international port of the EU, is an ideal place for obtaining and redistributing commodities coming from China (and, of course, from other parts of the world as well).

priced consumer goods and redistributing part of the commodities imported from China across the region.

One of the basic messages of the annex is that, similar to the overall EU deficit, all member countries register a deficit in their bilateral trade with China (excepting the first months of 2010 for Ireland). Another key message is that due to successful exports and the consequences of economic recession at home, all member countries (excepting Malta) could partly substantially reduce their deficit in bilateral trade with China. The most outstanding results were reported by Germany, Sweden, Austria (and Ireland) that could halve or reduce even more their deficit between 2008 and 2009. While in 2008 Germany still reported the third highest bilateral deficit in its trade with China (following re-exporting Netherlands and partly re-exporting United Kingdom), in the first four months of 2010, its deficit shrank substantially, ranking Germany on place 6 (with a trade deficit not very much higher than that of Poland). Also the new member countries kept pace, since the deficit reduction by almost EUR 4.500 million represented a deficit in 2009 at 78 percent of the deficit in 2008 (similar to the EU average).

The changes can even more clearly followed by the respective coverage data. In this respect, EU member countries can be classified into several categories. The highest coverage group (where export figures approximate the most import figures) includes Ireland, Finland, Germany, Austria and Sweden (with 70 to 95 percent of coverage in 2009). Interestingly, excepting Germany the group incorporates small competitive economies that could benefit from exporting to China, either based on the successful penetration of their own transnational companies (Ericsson, Nokia, etc.) or on identifying niches for smaller exporters and/or delivering goods produced by foreign companies in their country (United States in Ireland, Germany in Austria). A second group consists of countries with average coverage ratio, such as France, Belgium, Italy and Denmark. The third group that includes most of the new member countries (excepting Slovakia and tiny Estonia) as well as consumption-oriented Southern European members, such as Spain and Portugal (let alone Greece) represents substantially lower than average coverage ratios, a sign of highly unbalanced trade in favour of imports from China. It has to be noted that the average coverage ratio of the new member countries was 18.2 percent in 2009, a bit less than half of the 38 percent EU average, indicating the rather weak export position of this group while being a primary target of imports from China. Finally, a fourth group (Greece, Cyprus, Lithuania and, for being a large re-exporter, Luxembourg) can be set up with the lowest (less than 10 percent) coverage ratio.

The crisis period has generally improved the coverage ratio of all member countries, excepting that of France (not independently from the Chinese import barriers established in consequence of *Nicolas Sarkozy*'s talk with the Dalai Lama). This process clearly manifested in figures of 2009 seemed to continue in the first months of 2010 as well for most countries and for the EU in general, as well.[12] Between 2008 and the first four months of 2010, the Irish balance turned to positive, while Finland could improve the coverage ratio by 30 percent. However, the most important change was the rapid improvement of the German coverage ratio, from 66 percent in 2008 to 79 percent in 2009 and to 88 percent in the first four months of 2010. Again, it calls attention that small member countries of the EU, such as Austria, Sweden, Belgium (and the already mentioned Finland) could substantially improve their bilateral trade coverage indicator. From the new member countries, also Hungary can be placed into this group, while other relevant new members, Poland and the Czech Republic could follow this trend at a lower speed as well (Slovakia is a special case that needs further investigation, while coverage ratios for all other countries do not need special interpretation due to the very low level of trade flows). Still, the "coverage gap" of about 50 percent between the average figure for the new member countries and the EU average did not change in a meaningful way.

Table 4 summarizes the share of the member countries in the total exports, imports and trade balance of the EU with China.

It strikes the reader that Germany is the dominant exporting country of the EU. Already in 2008, German exports to China were equivalent to the aggregate exports of the next seven (!) EU member countries (France, Italy, United Kingdom, Netherlands, Belgium, Sweden, Spain). Moreover, the crisis period experienced a rapid increase of the German weight, so that in the first four months of 2010 German exports to China became almost as high as the total exports of all old EU member countries to this market. At the same time, the relative share of other key EU members, such as France, Italy, the United Kingdom and Spain has been falling, most probably as a result of two key factors. One can clearly be identified, as differences in global competitiveness, as already demonstrated in the eurozone (and in its internal tensions). The other, namely a strategic background of developing trade relations with the fastest growing economy of the world available in Germany and lacking in other main EU countries needs further in-depth investigation. The share of new member countries experienced a modest but continuous increase (from 4 to 5 percent) indicating the discovery of the Chinese market. In this context, Hungary's gradually increasing part as well as the rapid growth of Slovakia's export share has to be mentioned.

Imports from China by individual EU member countries provide a much more balanced picture. While Germany is the largest importer, with increasing share between 2008 and January–April 2010 (from 20.8 to 23.1 percent)[13], mainly re-

[12] The only EU country with declining coverage ratio has been Slovenia, mainly due to its lack of interest (or competitiveness) in the Chinese market.

[13] Since the German economy does not show signs of domestic demand-driven recovery, the increasing import share of Germany has to be connected to growing reliance on imported Chinese inputs used in German manufacturing to be able to successfully meet the challenge of global competitiveness.

exporting Netherlands and double-player United Kingdom belong to the leading importers. Concerning the new member countries, their share remained stable at about 10 percent or the double of their share in EU exports to China. However, it has to be noted that the figures of Poland and the Czech Republic were increasing. It cannot yet be assessed whether it has been the sign of a new Chinese strategy to conquer some of the new member country markets by consumer goods or by growing production linkages or it can be considered as a temporary phenomenon. In any case, in the next period, Hungary should follow the development of this process closely.

Finally, the share of the individual member countries in total deficit of the EU–China trade requires some remarks. First, in 2008 the largest share in EU trade deficit has been registered by the Netherlands and the United Kingdom (due to their re-exporting role), followed by Germany, Italy and Spain (for the two latter countries mainly due to domestic consumption). The impact of the crisis on EU–China trade has dramatically changed this picture practically overnight. While the share in total EU deficit with China continued growing for the Netherlands, the United Kingdom, Italy and France (and remained steady for Spain, as of January–April 2010), due to its successful export activity, Germany’s share in total deficit fell from 10.3 to less than 5 percent in the first months of 2010. While the Netherlands, the United Kingdom, Italy, Spain and France represented 62 percent of total EU deficit in 2008, their share rose to 71 percent according to the statistics covering the period January–April 2010. The share of the new member countries in the China-related trade of the EU remained steady with 12–13 percent of the total (but with clear increases for Poland and the Czech Republic).

## 2.3. Importance of trade relations with China in the overall framework of extra-EU trade of the member countries

The real importance of trade with China (both exports and imports) can best be measured by the share of China in the total extra-EU trade of the individual member countries. Figures contained in Annex 4 can be analysed from a static (shares) and a dynamic (growth or decline of shares) point of view.

In 2008, none of the EU members reported a double-digit share of China in its extra-EU trade. While exports to China in the total extra-EU trade amounted to 6 percent, five member countries exceeded the average, led by Germany with 9.4 percent and followed by Luxembourg (8.2%) and Finland (7.1%). All new member countries remained below the EU average (including Slovakia), signalising that for them, as for most of the old ones, Chinese market opportunities have not yet been adequately realized. The crisis generated a new situation, in 2009 Germany, and according to the data of the first four months of 2010 also Finland, and maybe to the greatest surprise, Slovakia reported two-digit shares of exports to China in their respective total extra-EU exports. In fact, Slovakia became the leading EU country focused on exports to China, closely followed by Germany.

It is particularly convincing, how dynamically the EU and most member countries increased the share of China in their total extra-EU exports. In other words, most of them recognized and tried to utilize the new opportunities offered by the fast-growing Chinese economy, in clear contrast to largely falling demand in the EU (and in some of their traditional markets, as Russia, Ukraine or the Western Balkan countries). In less than two years, EU exports to China enhanced their share in total extra-EU exports from 6 to 8.5 percent, or by 2.5 percentage points. An even quicker geographic reorientation towards the Chinese market took place in case of Slovakia (from 5.9 to 14.5 percent), and, with the largest impacts on EU–China trade, in German exports (a reorientation by almost 5 percentage points). In addition, very strong geographic restructuring of more than 3 percentage points characterized Finnish and Hungarian (plus Cypriote) exports. The bulk of the EU countries reported growing weight of China in their respective total extra-EU exports between 2 and 3 percent (Austria, Belgium, as well as the Czech Republic, Poland and Bulgaria among the new members). Another large group of countries with substantial influence on total EU–China trade increased its China-share of exports by 1 to 2 percentage points (Sweden, United Kingdom, Netherlands, Italy, Greece and Romania). Declining weight of China in total extra-EU trade could only be registered by Luxembourg and Ireland, and both can be explained by special reasons (fall of EU demand affecting Luxembourg's re-exporting activities and serious recession with restructuring problems in Ireland). The average of the new members followed the overall trend of the EU (growth of the share of exports to China by 2.7 percentage points, and that of imports by 2.5 percentage points).

The share of imports from China, already in leading position since 2005, continued growing by revealing an almost 2 percentage points market share growth between 2008 and 2009 (with a small and most likely temporary small decline in the first four months of 2010). Already before the crisis, in 2008, imports from China were in the two-digit range for all EU members, excepting some almost negligible partners (as Portugal and four new members). On the other hand, not considering the special case of Luxembourg (with 75 percent of extra-EU imports originating in China), some members, notably Hungary, the Czech Republic and Denmark imported more than 20 percent of their total extra-EU supplies from China. Out of them, three other countries with great impact on EU–China trade, namely Germany, the Netherlands and the United Kingdom registered a share of China in total extra-EU imports higher than the average of the EU27. Based on the figures of the first four months of 2010 (similar to full-year figures of 2009), Hungary had the highest orientation to China in its extra-EU imports (disregarding the special case of Luxembourg), closely followed by the Czech Republic. It is remarkable that another four EU members have surpassed the 20 percent margin, namely Denmark, the Netherlands, Greece and Germany.

Despite the recession in the EU and the collapse of international trade, China was able to keep on strengthening its leading role as the main supplier of the EU in general, and more and more EU countries, in particular between 2008 and early 2010. While the share of China in total extra-EU imports rose by 1.6 percentage points between 2008 and January–April 2010, several EU members registered much higher increases in their trade with China. As an exception, China could increase its presence in the extra-EU imports of Greece by 8.6 percentage points (from 12.2 to 20.8 percent). Although with astonishing dynamics, Chinese market shares grew between 4 and 5 percentage points in total extra-EU imports of the Czech Republic and Romania, by 3 to 4 percentage points in the case of Germany, Denmark and Hungary and by 2 to 3 percentage points for France, the Netherlands, Portugal, Poland, and the average of the new member countries.[14]

Based on the figures contained in Annex 4, two additional annexes (Annexes 5 and 6) have been compiled in order to show the ranking (and the change in ranking) of China as an export market and an import source for the individual EU member countries and for the EU as a whole.

In total extra-EU exports China could gradually upgrade its position (see Annex 5). While in 2008 it was the 4th largest export market for the EU (behind the USA, Russia and Switzerland), in 2009 it overtook Russia (partly due to the deep Russian recession also based on the collapse of oil prices), and according to the figures of the first four months of 2010 even Switzerland. In conformity with figures for January–April of 2010, it occupied place number two in total extra-EU exports of Germany, the United Kingdom (in both cases following the USA) and of Slovakia (following Russia). For another 7 EU members China was/became the third largest extra-EU export market (Belgium, Denmark, France, Italy, Austria, Finland and Sweden). Excepting Slovakia, the new member countries followed this trend, but starting from a lower initial level. Still, the Chinese market became the fourth most important extra-EU market for the Czech Republic and Hungary by early 2010.

Special attention can be devoted to the dynamics of the ranking of leading extra-EU export markets. While in total extra-EU exports, China jumped from place four to place two between 2008 and early 2010, in some member countries, even more spectacular changes took place. Its ranking improved by 6 places in Bulgarian and by 5 places in Romanian exports (but with low volumes). More important is the dra-

[14] The unique dynamism cannot be shadowed by the fact that in some markets, China lost relative weight. However, most of them belong to (almost) negligible markets of China's export offensive or the negative development can be attributed to special factors (declining re-export activities by Luxembourg, structural problems in Finland, Ireland or Slovakia).

matic increase of the relevance of the Chinese market for Hungarian exports (a raise of four places, but also for Belgium and Slovakia (each of three places). Since China used to be one of the three most important export outlets for several big EU exporters, the changes are less spectacular but not less telling. In less than two years, the Chinese market advanced one place ahead for Germany, Denmark, the Netherlands, Austria and Sweden, replacing such traditional export markets as Switzerland, Russia, Turkey, the Ukraine, Croatia, Serbia, but also the USA (see Slovakia) or Japan (see Denmark).

Even more relevant is China's position in extra-EU imports (see Annex 6). It is well known that it became the largest supplier of the EU by 2005. It is, however less evident, how dynamic the process of becoming the leading supplier of more and more EU members was just during the crisis period. While in 2008 China ranked first as the main extra-EU import source for 6 countries (Germany, Greece, Italy, Spain, Luxembourg and the Netherlands), it became the leading supplier to 10 countries in 2009 and to 13 countries according to the statistical figures covering the period January–April of 2010. In addition, and based on the latest available statistics, China was the second largest supplier to another 8 EU members (in five cases behind Russia), and the third biggest exporter to another 5 countries.[15]

It requires special attention that China was able to further strengthen its supplier position in different EU markets just at the time of deep recession and collapsing trade (including substantial but less than average decline of Chinese deliveries to the EU member country markets). Between 2008 and early 2010 imports from China exceeded those of previous traditional leading exporters to Portugal (Nigeria and Brazil) and to Romania (Russia and Turkey). In five cases, China switched from second to first supplier. This happened between 2008 and 2009 in imports of the Czech Republic and Hungary (also due to the declining price of energy imports from Russia). Even more remarkable are the changes reflected by trade figures of January–April 2010. In this period, imports from China to France and the United Kingdom surpassed those from the USA, and to Denmark from Norway.[16] Definitely, these developments do not point to any change in the fundamentally export-oriented and offensive strategy of China, whatever the official declarations and the new concepts of the Chinese government may be.[17]

[15] Only in Bulgaria's extra-EU imports it ranked fourth.

[16] Based on German statistics, in the first half of 2010 China became the leading exporter to Germany surpassing the traditional ones. (See Bundesministerium für Wirtschaft und Technologie [2010]: *Aussenhandel der Bundesrepublic Deutschland nach Laendergruppen und Laendern*. *Referat IC2*. August 18. Berlin.)

[17] The issue of switching from export-oriented to domestic demand-driven growth has been extensively analyzed in another paper prepared in the framework of the concluding part of the China strategy project. (See Inotai, A. [2010]: *A világgazdasági válság és a kínai külgazdaság-politika*: *hatások és válaszok*. (*The Global Economic Crisis and China's External Economic Policy*: *Impacts and Reactions*.) Manuscript. Budapest.)

## 3. Concluding remarks

Despite the short period covered by statistical data and the elaboration of a number of key issues affecting EU–China relations (including trade) in other studies, the survey can provide some very important lessons. They can be summarized in the following points.

– China, concerning its high GDP growth rate, rapidly increasing domestic demand in selected sectors (for example cars) and its economic stimulus package provided support to the crisis-ridden EU economies in increasing their exports to China. In fact, China was the only relevant country to which EU exports continued growing in 2009. As a result, China became the second largest export market of the EU by early 2010, ahead of all traditional export markets excepting the USA.

– Irrespective of economic recession and falling volume of Chinese exports to the EU, China could not only consolidate its first place in extra-EU imports but could continue raising its share in this field remarkably.

– Resulting from growing exports and (provisionally) declining imports, the EU could narrow its huge deficit in trade with China. However, as a result of overall trade developments in the crisis, more than 100 percent of the deficit in extra-EU trade can now be attributed to deficit produced in bilateral trade between the EU and China.

– As a consequence of carefully built-up competitiveness and probably also of a longer-term strategy, Germany's key and increasing position in EU–China relations, particularly concerning EU exports have been confirmed by all statistical figures.

– The most important new member countries could keep pace with overall developments in EU–China trade flows. Even more, in some cases they provided better than average record, even if their weight in total EU–China trade remained modest. The same applies for trade developments between Hungary and China.

– It is not yet clear to what extent the crisis period initiated a new quality of EU–China trade based on growing EU exports and declining or stagnating EU imports, with better prospects for bringing downwards the huge EU trade deficit, a major (potential) argument of protectionist forces in the EU (member countries) and of all those demanding the rapid revaluation of the Chinese currency. Most likely, imports from China will regain strength in 2010, while also EU exports to China may continue growing. As a result, bilateral trade will be more a two-way street but with persistent large imbalance in favour of China.

– Most recent figures (both taken from Chinese statistics and from Eurostat, as used in this paper) indicate that China will not become less competitive. In addition, it will not be able to abandon its three-decade old export-oriented growth pattern at least for the next years to come.

– Therefore, the EU's strategy should focus on increasing exports to China, establishing a virtual two-way street of investments by further supporting EU capital exports to China but, increasingly, by bringing more Chinese capital to Europe (partly for debt management of some eurozone countries, but mainly for more competitive production in Europe and substitution of direct imports from China).

– Finally, several member countries, not least some of the new ones, should make better use of their comparative advantages of becoming new regional hubs of the growing Chinese presence in the European integration.